



Blue Cross Blue Shield of Michigan

House Health Policy Overview

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BCBSM

Blue Cross Blue Shield of Michigan and Blue Care Network HMOs are independent licensees of the Blue Cross and Blue Shield Association

BCBSM: Who Are We?



- BCBSM is a Michigan based non-profit corporation that has been providing health care coverage in Michigan for 70 years
- Ranks as the largest (membership, revenue, and benefit pay-out) not-for-profit Blues plan that operates solely in a single state
- We are in every zip code offering coverage in the individual, small and large group markets
- We are an independent licensee of the Blue Cross Blue Shield Association
- We employ nearly 8000 employees in Michigan
- Provides access for affordable coverage to over 4.7 million people throughout Michigan
- Covers approximately \$20 billion in claims annually



Blue Care Network

- Blue Care Network of Michigan is a wholly owned subsidiary of Blue Cross Blue Shield of Michigan, established in 1975 with the purchase of small health plans in east and mid-Michigan.
- BCN serves nearly 650,000 members through a network of more than 14,000 primary care physicians and specialists. The health plan is offered in more counties than any other HMO in Michigan.
- With its emphasis on keeping members healthy, BCN coverage includes routine physical exams, immunizations, well-child care, mammography screening, inpatient hospitalization and prescription drug coverage options.
- BCN participates with BlueCard®, a national network of Blue plans, so members are covered when they travel or live temporarily outside Michigan. To meet diverse group and member needs, BCN offers a number of flexible
- Introduced one of the first wellness products of its kind in the nation with Healthy Blue Living



LifeSecure

- Headquartered in Brighton, LifeSecure provides individual insurance policies for long-term care, such as nursing home and in-home care. Founded in 2005 as a BCBSM subsidiary, LifeSecure's mission is to make long-term care uncomplicated and accessible. The company employs 35 people.
- Long-term care (LTC) insurance is designed to help pay for services that are not typically covered by health insurance plans, including Medicare. The insurance covers assistance with daily living, including bathing, dressing and eating – whether the care is provided at home, at a nursing facility, or in an adult day care or hospice setting and will also provide benefits for care provided at home by a family member or friend.



Accident Fund Insurance Company of America

- Accident Fund Insurance Company of America, headquartered in Lansing, is the largest provider of workers' compensation insurance in Michigan and the tenth-largest in the United States. The company is licensed in 49 states, plus the District of Columbia. Accident Fund employs 682 people.
- Accident Fund plays an important role in carrying out BCBSM's mission of providing affordable health insurance to its members. The company's profits help subsidize BCBSM's operating costs.
- Since 1995, Accident Fund's profits have accounted for more than 34 percent of BCBSM's income, and BCBSM has achieved a nearly 300 percent return on its investment from the purchase.



Dentemax

- Founded in 1985, DenteMax grew into one of the largest national, seamless, credentialed dental PPO networks in the country. DenteMax, is an independent wholly-owned BCBSM subsidiary, provides third-party dental claims administration and oversees dental coverage for more than 1.3 million BCBSM members.
- DenteMax also manages one of the nation's largest leasable dental PPO networks accessed by nearly 200 insurance companies and third-party administrators throughout the country.
- The DenteMax network includes more than 87,000 dentist access points* across the country and employs approximately 150 people, mainly in Southfield.

Subsidiaries



- Allow us to keep margin on healthcare low
- Average margin over the last decade is less than one-tenth of one percent

PA 350: Unique Mission



- Our unique mission, defined by Michigan's Nonprofit Health Care Corporation Reform Act (1980 PA 350), helps ensure access to quality health care services and improve the health status of all Michigan residents.



Philosophical Intent of PA 350

1. Provide access to affordable care and accept applicants regardless of health
2. Provide explicit Social Mission expenditures to those most in need including seniors and children

Current Statutory and Regulatory Framework to Manage Philosophical Intent

1. To provide access to affordable care, BCBSM cannot reject individuals and must community rate individual premiums (i.e. identical premiums for all members with the same product). Furthermore, premium increases are based on a prior approval process
2. Social Mission funding is directed to seniors through Medigap products and to individuals for transitional coverage after losing group coverage through Group Conversion products

Social Mission Commitments



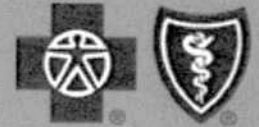
BCBSM:

- Offers Social Mission funding to the most vulnerable populations with the desired outcome to reduce the number of uninsured in the state. Our Social Mission spending (over \$391 million in 2008) far outweighs our tax equivalent value in Michigan
- Serves nearly 230,000 Medicare-eligible individuals and provides over \$108 million in support of Medigap coverage
- Volunteers more than 42,000 hours of annual community service hours, equivalent to nearly \$800,000 community investment
- Contributed over \$661,000 to the United Way via employees and retirees giving. When combined with a BCBSM corporate match of \$391,000, that equated to a million total charitable commitment

Social Mission Commitments



- Reached over 4,000 elementary and middle school students through a school-based health awareness initiative aimed at improving physical activity, diet, and nutrition
- Provided \$15.5 million to the State of Michigan to cover low-income children through the MIChild program
- Contributes over \$148 million to support Michigan Hospital system uncompensated care coverage
- Contributes over \$10 million to support the Michigan Health & Hospital Assn. Keystone project, improving safety to Michigan intensive care units and saving 1,578 lives and \$165 million
- Provided grants to 42 free clinics across the state



We stretch the health care dollar by providing:

- Fraud investigation unit
- Healthy Blue Living
- Provider audit review
- Lower benchmarked administrative costs
- Physician Group Incentive Program (PGIP)

Value-added Features



◆ **BlueSafeSM**

Members show their Blues ID card at Dunham's Sports and Wright & Filippis to receive discounts on specific safety items

◆ **Naturally BlueSM**

Members show their Blues ID cards to get 20-percent discounts on acupuncture, massage therapy and nutrition counseling from network practitioners through Naturally Blue

◆ **Weight Watchers®**

Blues members receive more than a 25-percent discount off the regularly priced registration fee and initial 12- or 13-week program

What Are Reserves?



- Reserves are a prudent business measure in our role as a non-profit health insurer.
- Reserves ensure our stability as a company. Health care is a volatile business and strong reserves are required to meet changes in the economy and health care demands.
- We have built reserves over a period of time. We actively manage reserves to stay at reasonable, but healthy levels.
- Reserves are required by the Blues Association and by the State of Michigan:
- Blues reserves are in line with state and association requirements. More than half the reserves are required to maintain our license from the association.
- Reserves are capped by the state, and we're below the maximum amount allowed in reserves.
- We actively manage reserves to a healthy, but reasonable level based on calculations set by the National Association of Insurance Commissioners.

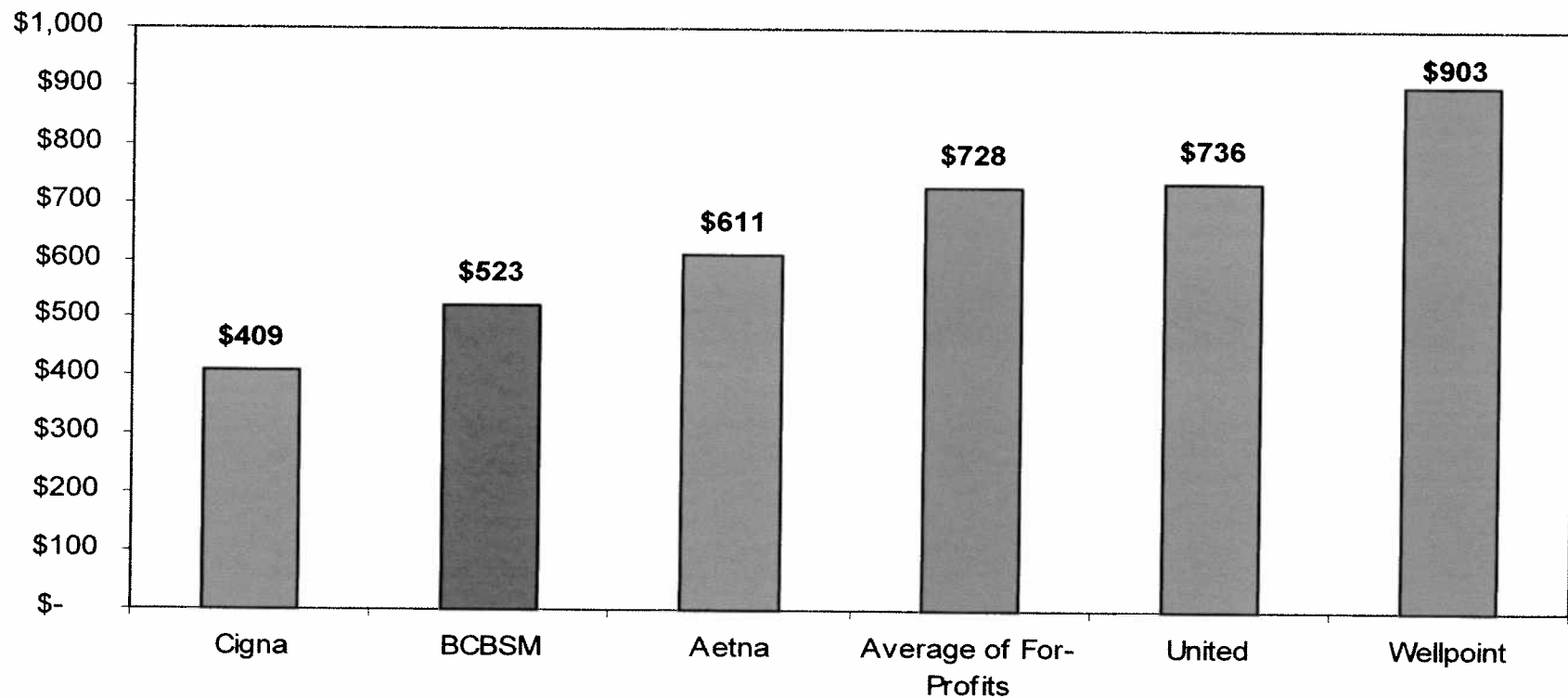
BCBSM Reserves



- Number of months of claims and operating expenses held in reserves: approx. 1.7 months.
- Reserve dollars per member: approx. \$523 (less than the cost of one emergency room visit per person)
- BCBSM's reserve needs to be strong to ensure it can fulfill its commitments to policyholders

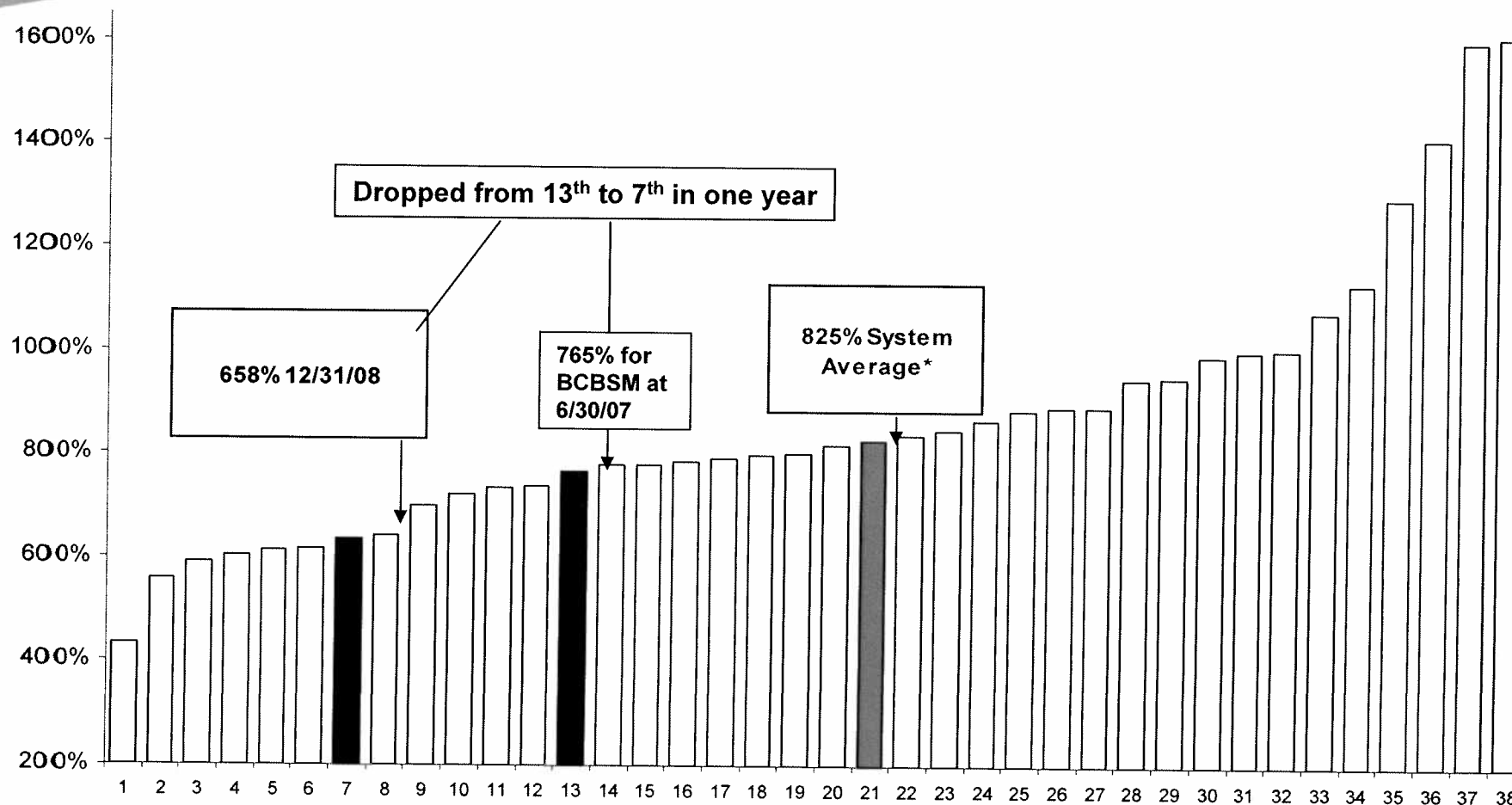


Capital/Surplus Per Member



Source: September and June 2007 SEC Filings; BCBSA Enrollment Reports 6/30/2007
Financial Results Reports - June 30, 2007 (BCBSA)

Comparison of Blue Plan Risk-Based Capital



*System average is for nonprofit Blues plans only

Role of BCBSM in the Marketplace



- Large Group Market

ASC Groups

- Small Group Market

1-50 Employees

- Individual Market

Non-Group
Group Conversion
Medigap

Group Market



- ASC (self-insured) Customers: 3.2 million
- Medium/Large Group Insured Customers: 576,000
- Small Group Customers: 523,000
- Market Share: 65.2%

Michigan's Under 65 Individual Market Share



Growth in the individual Market persists. The impact on individual market growth follows:

Under 65 Individual Market Size							Membership Split		
	Market size of individual purchasers	Estimated Competitors Market Size	Estimated Competitors Market Percent	BCBSM Membership Share	BCBSM percent of purchasers	Membership Change	Group Conversion	Non-Group	Total
2006	386,602	262,889	68%	126,952	32%	-	65,912	61,040	126,952
2007	443,548	283,870	64%	163,730	36%	22%	66,827	96,903	163,730
2008	500,493	300,000	60%	200,493	40%	18%	69,561	130,932	200,493
2009-P	540,000	311,507	58%	228,493	42%	12%			

Assumptions :

No Association, "one subscriber groups" or "group of one" contracts included.

Sources: Kaiser State Health Facts, 2005-2006; IBU Membership, 2006

<http://www.statehealthfacts.org/profileind.jsp?ind=125&cat=3&rqn=24>

Michigan's Over 65 Individual Market Share



Growth in the individual Market persists. The forecasted impact on growth follows:

Over 65 Individual Market Size					
	Market size of individual purchasers	Estimated Competitors Market Size	Estimated Competitors Market Percent	BCBSM / BCN Membership Share	BCBSM percent of purchasers
Medicare Advantage - YTD 2009	222,821	95,045	43%	127,776	57%
Medicare Supplemental - YTD 2009	309,530	100,135	32%	209,395	68%
Total Medicare Market - YTD 2009	532,351	195,180	37%	337,171	63%

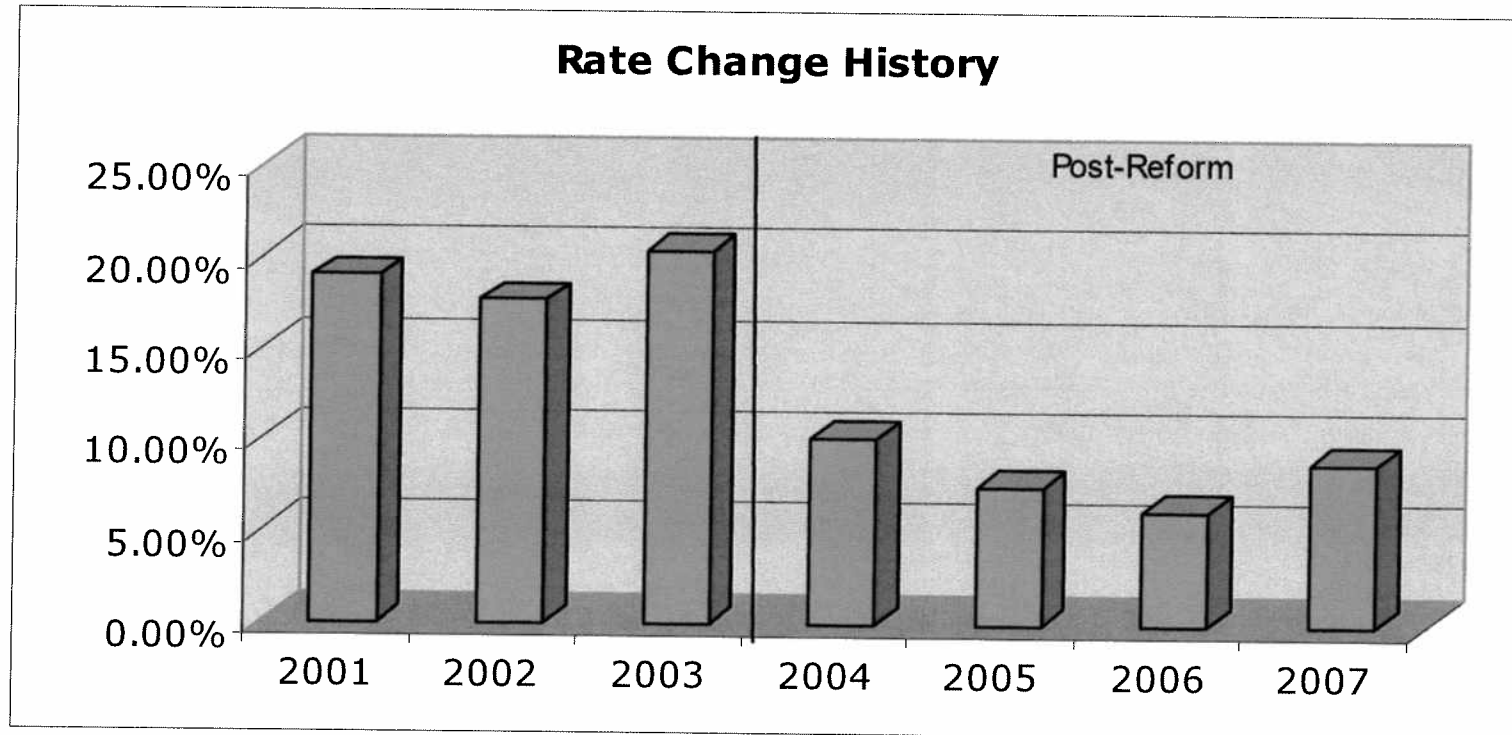
Michigan Medicare Eligible Population	
YTD 2009	
Stand Alone RX Coverage	533,468
Covered by Group Retiree Subsidy	349,843
Medicare Advantage Coverage	308,546
Disabled	245,000
Federal Retirees (Tricare, FEHB)	136,021

Small Group Market Reform Components



Provision	Definition	BCBSM	HMO's	Commercials
Allowable Factors	Specifies what factors carriers can use in the rating process	Area, Age, Industry, Sole Prop transfer from Self-Funding	Same as BCBSM but also allows Group Size	Same as BCBSM but also allows Group Size and Health Status
Provision	Definition	BCBSM	HMO's	Commercials
Banded Factors	Requires that certain factors be banded to restrict full impact on rates	Age, Industry	Age, Industry, Group Size	Age, Industry, Health Status, Group Size
Provision	Definition	BCBSM	HMO's	Commercials
Band Limits	Once banded, the banded factors are subject to specified limits to control rate variations among groups	+/-35% of index rate	+/-35% index rate	+/-45% of index rate

Success of Small Group Market Reform

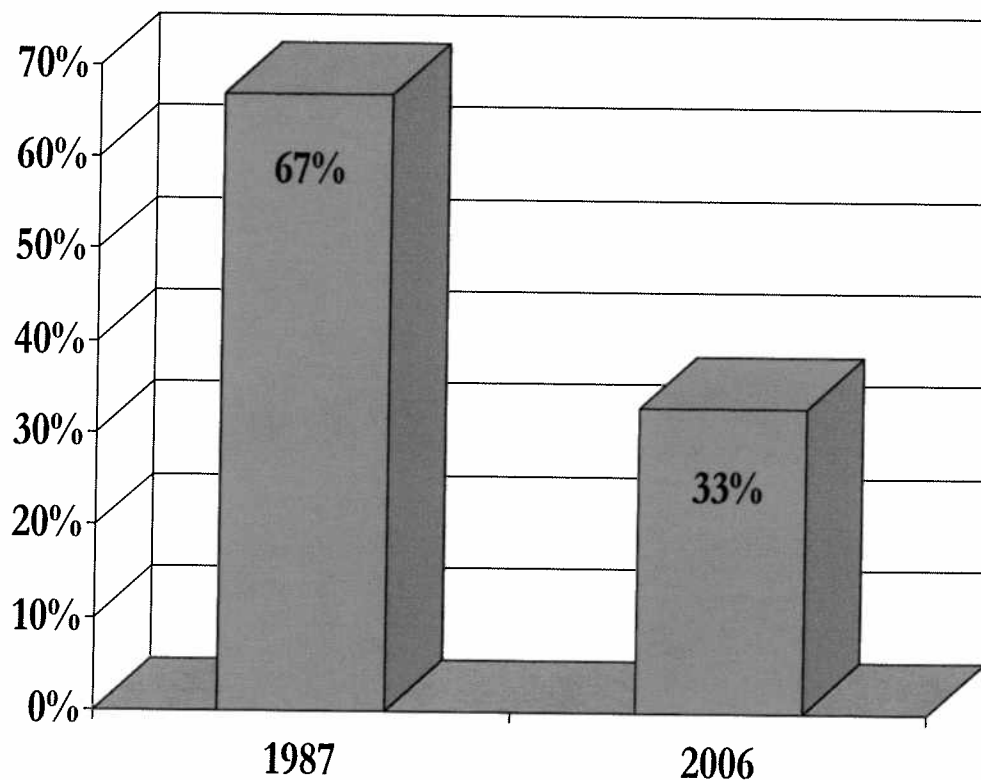


- Magnitude of average annual rate increases has declined since the effective date of small group reform.
- Rate increases have continued to be less than claims trends through fourth year of reform.

Michigan's Individual Market Needs Are Growing



- Employees, retirees losing group coverage.
 - Only 33 percent of employers provide retiree coverage. compared to 67 percent in 1987.
 - Growing number of potentially uninsured individuals.



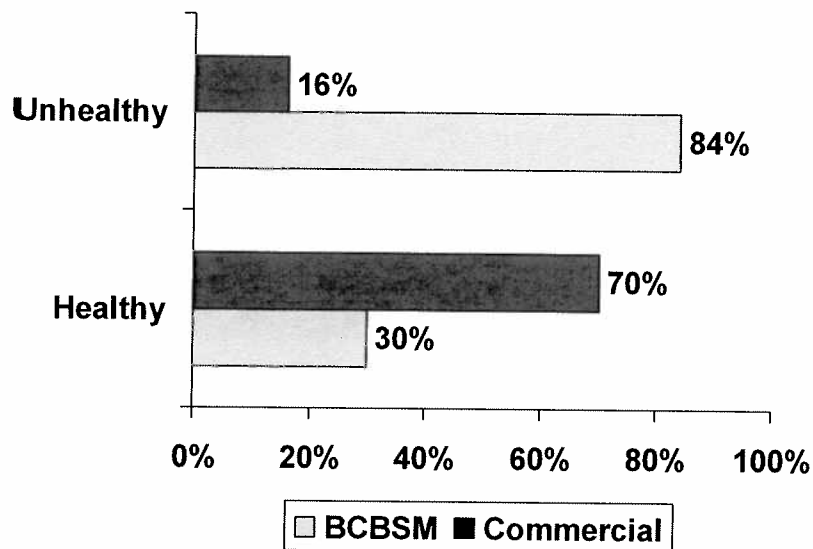
Individual Market Pools

BCBSM vs. Commercial

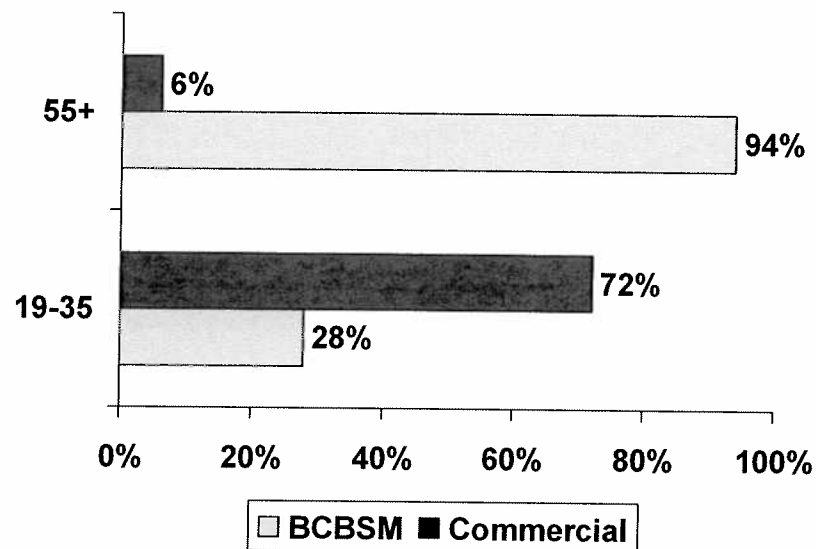


BCBSM pools have older, less healthy members

Percent of Individual Market by Health Status



Percent of Individual Market by Age



BCBSM's cost per member is four times higher than commercial carriers

Current Rating and Underwriting Practice



BCBSM

HMOs

Commercials

Rate Approval Process

Prior Approval & Rate Hearings

File & Use – 60 Days

File & Use 30 Days

Guaranteed Issue of Coverage

Yes

1 Month Each Year

None

Medical Underwriting

None

None during 1 month;
can 11 months out of year

Can Exclude Coverage
for Specific Health
Conditions

Rating Factors

Community Rated –
Majority
Age Rated - Limited

Age, Gender,
Geography, Occupation

Health Status, Age,
Gender, Geography,
Occupation

Rating Bands

Community Rating – None
Age 4-1

No Limit

No Limit

Factors Threatening Financial Solvency

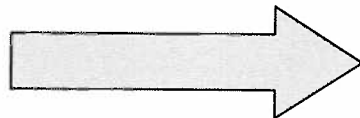


**Inadequate Rate
Adjustments**



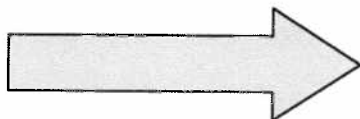
Mounting losses

**Group Market
Erosion**



Growth in the Individual Market
multiplies losses

**Dual Regulatory
Environment on
Individual
Business**



Leads to adverse selection
in the individual pool

**Legal
Accounting
Rules**



Require us to recognize known
future losses

Characteristics of Reform



- Strengthen regulations to increase consumer protections
- Create regulations that are fair and balanced across all health insurers; leveling of the playing field
- Require all insurers to share responsibility for covering populations most in need
- Create an objective and timely rate approval process for all health insurers that is overseen by state regulators
- Should not destabilize the employer-based system of providing health insurance
- Should preserve the Blues' nonprofit status, and require all nonprofit status and require all nonprofit health insurers to return the value of their tax exempt status to taxpayers



Questions?